

**INDIANA DEVELOPMENT
FINANCE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2003

INDIANA DEVELOPMENT FINANCE AUTHORITY
Indianapolis, Indiana

FINANCIAL STATEMENTS
June 30, 2003

CONTENTS

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS.....	6
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENSES AND CHANGES IN FUND BALANCES / STATEMENT OF ACTIVITIES	7
NOTES TO FINANCIAL STATEMENTS	8
SUPPLEMENTAL SCHEDULES	
SCHEDULES OF SPECIAL REVENUE FUND BALANCE SHEETS AND SPECIAL REVENUE FUND REVENUES, EXPENSES AND CHANGES IN FUND BALANCES	24
REQUIRED SUPPLEMENTAL INFORMATION	
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET.....	26
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	27

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Indiana Development Finance Authority
State of Indiana

We have audited the governmental fund balance sheet / statement of net assets of Indiana Development Finance Authority (Authority), as of June 30, 2003, and the related statement of governmental fund revenues, expenses and changes in fund balances / statement of activities for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2003, and the results of their operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information on pages 3 through 5 and 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2003 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplemental schedules of special revenue fund balance sheets and special revenue fund revenues, expenses, and changes in fund balances are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Crowe Chizek and Company LLC

Indianapolis, Indiana
September 12, 2003

INDIANA DEVELOPMENT FINANCE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2003

This section of the Indiana Development Finance Authority (the "Authority") financial report provides a discussion and analysis of the financial performance during the year ended June 30, 2003. Please read it in conjunction with the Report of Independent Auditors at the front of this report and the financial statements, which immediately follow this section.

Financial Highlights

The Authority's total net assets increased by \$6,051,004 or 13.6%, for the year ended June 30, 2003. This increase is attributable to additional funding of a new Brownfield's initiative, and additional appropriations to other Authority funds.

In the year ended June 30, 2003, the Authority also recognized an approximate 25.1% decrease in expenses from the previous year.

As a result of the bankruptcy of Qualitech and Heartland Steel (described in Note 7), the Authority continues to work with the State to see that debt service on the related bonds is paid.

Overview of the Financial Statements

By law, the public purposes of the Authority are to:

- Promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations;
- Promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects;
- Promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises;
- Prevent and remediate environmental pollution by the promotion and development of industrial development projects; and
- Promote affordable childcare financing.

The Governmental Fund Balance Sheet / Statement of Net Assets is the first financial statement included in this report. It represents the financial condition of the Indiana Development Finance Authority on the last day of the reporting year. The Statements of Governmental Funds Revenues, Expenses and Changes Fund Balances / Statement of Activities, reflects the activities of the Indiana Development Finance Authority from the first day of the reporting year through the last. This statement reflects what revenues were generated through the year and what expenses were required to generate those revenues.

The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

INDIANA DEVELOPMENT FINANCE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2003

Financial Analysis of the Indiana Development Finance Authority

Net Assets

The net assets of the Indiana Development Finance Authority were \$50,632,763 at June 30, 2003, which represents a 13.6% increase from the prior year. Total assets increased by \$6,052,145, while total liabilities increased by \$1,141.

	<u>2003</u>	<u>2002</u>
Assets	\$ 51,599,384	\$ 45,547,239
Liabilities	<u>966,621</u>	<u>965,480</u>
Net Assets	<u>\$ 50,632,763</u>	<u>\$ 44,581,759</u>

Change in Net Assets

The increase in net assets was \$6,051,004 for the year ended June 30, 2003 as compared to an increase of net assets of \$14,299,291 for the prior year. Revenue decreased by \$14,711,588, which represents a 36.7% change from the prior year. Expenses decreased by \$6,463,301, which represents a 25.1% change from the prior year.

	<u>2003</u>	<u>2002</u>
Revenues	\$ 25,364,631	\$ 40,076,219
Expenses	<u>19,313,627</u>	<u>25,776,928</u>
Change in net assets	<u>6,051,004</u>	<u>14,299,291</u>

There are three primary reasons for changes from the prior year to the current year:

- The new Petroleum Remediation Grant Fund Program had appropriation revenue of \$4,500,000 in 2002 with minimal expenses recorded for the current year.
- During 2002, the Indiana 21st Century Research and Technology Fund Program received state funding for grant awards in excess of those awards disbursed by year-end. The fund has restricted \$4,477,002 for grant awards and administration at June 30, 2002.
- The Guaranty Fund received additional appropriations to pay debt service on the Heartland Steel bonds (see Note 7). Appropriations received for the year ended June 30, 2003 were \$2,418,750, while appropriations for the year ended June 30, 2002 were \$3,462,500. Debt service recorded for the year ended June 30, 2003 was \$2,749,022, while debt service for the year ended June 30, 2002 was \$2,395,039.

INDIANA DEVELOPMENT FINANCE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2003

Analysis of Infrastructure Assets

The Indiana Development Finance Authority does not own infrastructure assets.

Capital and Debt Administration

The Authority does not own assets that meet the capitalization requirements and is not legally obligated to pay any outstanding short term or long-term debt at June 30, 2003 (see Note 7).

Economic Factors

A majority of the Authority's funding comes from State of Indiana appropriations to perform and administer State-authorized programs. Appropriations are made on a biennial basis. Other funding includes fees received in connection with program administration and management, as well as investment earnings.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
June 30, 2003

	<u>Governmental Fund Types</u>			<u>Adjustments</u>	<u>Statement</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>	<u>(Note 1)</u>	<u>of Net Assets</u>
	<u>Fund</u>	<u>Funds</u>			
Assets					
Current assets					
Cash and cash equivalents (Note 2)	\$ 716,776	\$ 1,666,908	\$ 2,383,684	\$ -	\$ 2,383,684
CAP cash accounts (Note 3)	-	-	-	-	-
Investments (Note 2)	1,069,926	41,486,502	42,556,428	-	42,556,428
Accrued interest receivable	229	344,221	344,450	-	344,450
Accounts receivable	11,655	46,102	57,757	-	57,757
Loans receivable, net (Notes 5,8 and 9)	-	6,257,065	6,257,065	-	6,257,065
Interfund loan receivable (Note 4)	126,577	296,779	423,356	(423,356)	-
Total current assets	<u>1,925,163</u>	<u>50,097,577</u>	<u>52,022,740</u>	<u>(423,356)</u>	<u>51,599,384</u>
Liabilities					
Current liabilities					
Accounts payable and accrued expenses	\$ 45,459	\$ 21,162	\$ 66,621	-	66,621
Interfund loan payable (Note 4)	181,569	241,787	423,356	(423,356)	-
Allowance for guaranty claims (Note 6)	-	900,000	900,000	-	900,000
Total current liabilities	<u>227,028</u>	<u>1,162,949</u>	<u>1,389,977</u>	<u>(423,356)</u>	<u>966,621</u>
Fund balances/Net assets					
Fund balances:					
Reserved (Note 11)	-	8,328,261	8,328,261		
Unreserved	1,698,135	40,606,367	42,304,502		
Total fund balance	<u>1,698,135</u>	<u>48,934,628</u>	<u>50,632,763</u>		
Total liabilities and fund balances	<u>\$ 1,925,163</u>	<u>\$ 50,097,577</u>	<u>\$ 52,022,740</u>		
Net assets:					
Unrestricted					<u>\$ 50,632,763</u>

See accompanying notes to financial statements.

INDIANA DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
Year ended June 30, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>	<u>Adjustments (Note 1)</u>	<u>Statement of Activities</u>
Government activity revenues					
State appropriations	\$ -	\$ 10,821,250	\$ 10,821,250	\$ -	\$ 10,821,250
Other state funding	-	12,723,880	12,723,880	-	12,723,880
Investment earnings	3,922	1,333,166	1,337,088	-	1,337,088
Realized and unrealized gains on investments	-	106,955	106,955	-	106,955
Financing fees and premiums (Note 12)	281,914	13,575	295,489	-	295,489
Other fee income	29,000	-	29,000	-	29,000
Rental income (Note 13)	<u>50,969</u>	<u>-</u>	<u>50,969</u>	<u>-</u>	<u>50,969</u>
Total revenues	<u>365,805</u>	<u>24,998,826</u>	<u>25,364,631</u>	<u>-</u>	<u>25,364,631</u>
Government activity expenses					
Salary and benefits	402,289	21,713	424,002	-	424,002
Professional services	44,409	285,711	330,120	-	330,120
Administrative expenses	140,215	-	140,215	-	140,215
Office Rent	122,821	20,538	143,359	-	143,359
Bank and trustee fees	1,394	49,545	50,939	-	50,939
Provision for loan forgiveness (Notes 8 and 9)	-	413,911	413,911	-	413,911
Reimbursement agreement loss (Note 7)	-	2,749,022	2,749,022	-	2,749,022
Grant awards	-	14,129,345	14,129,345	-	14,129,345
CAP claims (Note 3)	<u>-</u>	<u>932,714</u>	<u>932,714</u>	<u>-</u>	<u>932,714</u>
Total expenses	<u>711,128</u>	<u>18,602,499</u>	<u>19,313,627</u>	<u>-</u>	<u>19,313,627</u>
Excess (deficiency) of revenues over expenses	(345,323)	6,396,327	6,051,004	-	6,051,004
Other financing sources (uses)					
Transfers - internal activities	<u>1,501,062</u>	<u>(1,501,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and sources over expenses and uses	1,155,739	4,895,265	6,051,004	-	6,051,004
Fund balances/net assets:					
Beginning of year	<u>542,396</u>	<u>44,039,363</u>	<u>44,581,759</u>	<u>-</u>	<u>44,581,759</u>
End of year	<u>\$ 1,698,135</u>	<u>\$ 48,934,628</u>	<u>\$ 50,632,763</u>	<u>\$ -</u>	<u>\$ 50,632,763</u>

See accompanying notes to financial statements.

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Indiana Development Finance Authority (the Authority) was established by the Indiana General Assembly, in 1990, as a body, both corporate and politic, to independently exercise essential public functions. The public purposes of the Authority are to:

- Promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations
- Promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects
- Promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises
- Prevent and remediate environmental pollution by the promotion and development of industrial development projects; and
- Promote affordable childcare financing.

The accompanying financial statements report only on the financial activities associated with the Authority, which is a component unit of the State of Indiana. The financial statements do not represent a comprehensive annual financial report of the State of Indiana.

Government-wide and Fund Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority only uses governmental funds. Government funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Reconciliation of Governmental Fund Balance Sheet / Statement of Net Assets: In addition to elimination of interfund balances, the following items reflect adjustments to fund balances to derive net asset balances:

Governmental funds balance	\$ 50,632,763
Eliminate interfund loan receivable	(423,356)
Eliminate interfund loan payable	<u>423,356</u>
Net Assets	<u>\$ 50,632,763</u>

Fund Accounting: The accounts of the Authority are organized based on funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures, and operating transfers, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type for financial reporting purposes as governmental funds as follows:

General Fund: The General Fund is used to account for all activities of the Authority not required to be accounted for in another fund. Examples of activities accounted for in the General Fund include the State Private Activity Bond Ceiling Program, various bond issue and refunding programs, and operational budgets.

Special Revenue Funds: Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for a specified purpose. The Authority's Special Revenue Funds include the following:

The **Capital Access Program (CAP) Fund** enables banks to make loans to Indiana businesses that may not meet traditional lending requirements. The foundation of CAP is the establishment of a reserve fund into which the borrower, bank, and the Authority contribute. When a CAP loan is made, the borrower and the bank each deposit a small percentage of the loan (1.5% - 3.5%) into the bank's reserve fund, and the Authority matches the combined payment.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The reserve fund is available for the bank to use to cover losses of any loans made by it under the CAP program. Claims expense recognized by the Authority during the year totaled \$932,714.

The **Industrial Development Project Guaranty Fund (Guaranty Fund)** provides flexible loan guaranties to banks for various economic development projects. Indiana businesses that are unable to qualify for conventional financing can utilize the Authority's loan guaranty programs for high tech, industrial, rural and agriculture development projects. The loan guaranty program offers guaranties on the principal deficiency on a loan, with a maximum guaranty amount not exceeding \$2,000,000 for industrial development projects. At June 30, 2003, the Authority had outstanding guaranties aggregating \$1,614,964 and no outstanding guaranty commitments; however see Notes 5 and 7.

The **Business Development Loan Fund** is used for activities relating to the Business Development Loan Program. The primary purpose of the Business Development Loan Fund is to grant loans to qualified borrowers so that they may carry out an industrial development project consistent with the requirements of the related statute (4-4-11-16.5). As of June 30, 2003, there were no loan commitments outstanding.

The **Rural and Agricultural Development Fund** is used for activities relating to the Rural and Agricultural Program. The Fund's primary purpose is to create or retain employment within the State of Indiana to benefit any agriculture enterprise or rural development project. The loan guaranty program offers guaranties on the principal deficiency on a loan, with a maximum guaranty amount not exceeding \$300,000 for rural and agriculture projects. At June 30, 2003, the Authority had outstanding guaranties aggregating \$287,560 and no outstanding guaranty or loan commitments.

The **Environmental Remediation Revolving Loan Fund** was created in 1997 by the General Assembly to facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues. The Authority administers the State's Brownfield Grant and Loan Program. There was \$125,328 in grant commitments and \$400,000 outstanding loan commitments at June 30, 2003.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The **Indiana 21st Century Research and Technology Fund** was established by the State in 1999 to support the expansion of the high technology sector of Indiana's economy, with the expectation of creating significant economic impact and job growth. The Fund provides grant awards to Indiana businesses, institutions of higher educations and other organizations to compete for research and development funding; to stimulate the transfer of research and technology into marketable products; to diversify Indiana's economy through effective public/private partnerships. The State Budget Agency and the Fund's Board review grant submissions recommended by peer review panels and approve grant disbursements under the program.

The **Petroleum Remediation Grant Incentive Fund** is a new component of the Environmental Remediation Revolving Loan Fund that provides assistance to cities, towns, and counties in Indiana to complete remediation of petroleum contamination at Brownfield sites. The Authority administers the program in cooperation with the Indiana Department of Environmental Management. There was \$451,000 in grant commitments outstanding at June 30, 2003.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include allowances for loans, guaranty and CAP claims and related commitments.

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit.

Fund Balances: The Authority has reserved fund equity in special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by the Authority's governing body.

Appropriations from the State of Indiana: Appropriations are made by the legislature of the State of Indiana on a biennial basis. The Authority records revenues as payments are received.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Marketable securities and other investments are carried at fair value. Realized and unrealized gains and losses are included in the statements of activities.

Investment Valuation: Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

Loans Receivable: Loans are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. The Corporation's sources of funding for loans are from state appropriations and grants.

Allowance for Loans: Since there are a small number of significant loans outstanding, the allowance for loan loss is estimated by identifying specific troubled loans. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

Management believes that as of June 30, 2003 and 2002, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the areas that funds are loaned would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss allowance.

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or they do not vest.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 2 - CASH AND INVESTMENTS

The Authority maintains separate demand deposit or trust accounts for each fund. At June 30, 2003, the Authority's demand deposits account balances were \$2,383,684. Investments held by the Authority are summarized below:

	<u>Cost</u>	<u>Market Value</u>
Money market funds	\$ 21,511,191	\$ 21,511,191
Government and agency obligations	20,577,662	20,934,997
Equity securities	<u>100,000</u>	<u>110,240</u>
	<u>\$ 42,188,853</u>	<u>\$ 42,556,428</u>

Indiana statute authorizes the Authority to invest in obligations of the United States Treasury and U.S. agencies, repurchase agreements and other approved investment vehicles. Repurchase agreements are required to be fully collateralized by interest bearing obligations, as determined by the current market value computed on the day the agreement is effective. All investments are uninsured and unregistered (Category 2), with securities held by bank trust departments in the Authority's name.

The following schedules summarize the investment return for the year ended June 30, 2003:

Dividends and interest	\$ 1,337,088
Net realized gains (losses) on investments	(52)
Net unrealized gains (losses) on investments	<u>107,007</u>
Total return on investments	<u>\$ 1,444,043</u>

NOTE 3 - CAPITAL ACCESS PROGRAM (CAP) CASH

At June 30, 2003, the valuation of the Authority's share of CAP cash account balances held in participating banks in the Authority's name was \$0. The aggregate CAP Cash balance includes the Authority's matching payments on the aggregate of the borrowers' and banks' payments of \$3,690,775 offset by \$4,405,806 recorded as aggregate borrower and lender contributions to the CAP program. Because aggregate borrower and lender contributions to the CAP program exceed the balance in the CAP cash accounts, there is no asset reported by the Authority as of June 30, 2003. All CAP cash accounts held by participating banks are pledged as security on CAP loans outstanding of approximately \$43,442,616 at June 30, 2003. Since inception of the program, CAP has originated approximately \$132,309,659 of loans.

(Continued)

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 4 - INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds have not been paid or received, interfund receivable and payable balances have been recorded at June 30, 2003 as follows

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 126,577	\$ 181,569
Guaranty Fund	275,505	-
Business Development Loan Fund	21,274	-
Capital Access Program Fund	-	42,446
Indiana 21 st Century Research and Technology Fund	-	126,577
Environmental Remediation Revolving Loan Fund	<u>-</u>	<u>72,764</u>
	<u>\$ 423,356</u>	<u>\$ 423,356</u>

NOTE 5 - LOANS RECEIVABLE - GUARANTY FUND

Loans receivable under the Guaranty Fund were comprised of the following at June 30, 2003:

In June 1997, the Authority advanced \$450,000 under a promissory note to a company within Indiana. The note is payable in monthly installments of \$5,225, including interest at 7%, from June 1997 to July 2007. The note is secured by substantially all property, equipment, and inventory of the borrower.

\$ 233,660

In June 1997, the Authority advanced \$1,000,000 under a promissory note to a company within Indiana for equipment purchases and permanent working capital. The note is payable in monthly installments of \$12,485, including interest at 7%, from June 1997 to August 2007. The note is secured by substantially all property and equipment, inventory and personal guaranties of the borrower.

675,940

\$ 909,600

Interest earned on these loans during the year ended June 30, 2003 was \$91,818.

(Continued)

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 6 - ALLOWANCE FOR CLAIMS - GUARANTY FUND

The Guaranty Fund was established by the Indiana General Assembly primarily for the purpose of guaranteeing various percentages of loans, bonds, letters of credit, and equipment leases used by qualified lenders. Periodically, the Indiana General Assembly appropriates funds to the Guaranty Fund. Available funds may be increased or decreased by the income and expenses attributable to the Authority's Guaranty Program, including payments required upon guaranteed loan defaults.

Guaranties are not backed by the full faith and credit of the State of Indiana. Payments of guaranty claims can be made only from the Guaranty Fund. Currently, for the Guaranty Program, the Authority is authorized to extend guaranties aggregating eight times the amount of the Guaranty Fund balance. At June 30, 2003, the Authority had outstanding loan guaranties aggregating \$1,614,964 and no outstanding loan guaranty commitments.

The Authority has also entered into certain agreements, which include a requirement that under certain circumstances the Authority either use existing guaranty funds or seek appropriations from the Indiana General Assembly. In addition to projects described in Notes 5 and 7, on May 25, 1995, the Authority issued \$21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics bonds. During FY 2003, Steel Dynamics effectively refinanced the bonds by converting them to a bank loan under which the Authority remains obligated to use guaranty funds or seek appropriations under certain circumstances. As of June 30, 2003 the principal amount of the bank loan was \$16,500,000.

The Allowance for Guaranty Claims is recorded in the Special Revenue Fund (Guaranty Fund) and represents amounts that management estimates to be adequate to provide for future claims resulting from borrower defaults on loans, bonds or equipment leases guaranteed by the Authority pursuant to its Guaranty Program. In arriving at a judgment about the adequacy of the allowances, consideration has been given to problem guaranties, historical losses, economic conditions, and other factors affecting the outstanding guaranties.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 7 - REIMBURSEMENT AGREEMENT LOSS - GUARANTY FUND

Qualitech Steel - The Authority is a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation ("Qualitech"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) ("Bonds").

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, \$26,300,000 as of June 30, 2003. Current debt service reserve funds of \$3,667,000 would be available to reduce the contingent obligation.

For FY 2002 and FY 2003, the Indiana General Assembly appropriated sufficient funds to the State Budget Agency for transfer to the Authority to pay Qualitech bond and related payments during those fiscal years. During the fiscal year ending June 30, 2003, the Authority recorded expenses for such bond and related payments of \$1,985,994. For FY 2004 and FY 2005, the General Assembly appropriated \$5,717,877 to the State Budget Agency for transfer to the Authority for Qualitech bond and related payments, negating the need to access other Authority funds in either FY 2004 or FY 2005.

Heartland Steel - The Authority is a party to an Amended and Restated Reimbursement Agreement with Heartland Steel, Inc. ("Heartland"), in a case pending in the United States Bankruptcy Court for the Southern District of Indiana, and Bank One, Indiana, NA ("Bank"), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) ("Bonds").

(Continued)

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 7 - REIMBURSEMENT AGREEMENT LOSS - GUARANTY FUND (Continued)

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. As a result of Heartland's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding. If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, \$11,400,000, as of June 30, 2003. Current debt service reserve funds of \$2,241,750 would be available to reduce the contingent obligation.

For FY 2002 and FY 2003, the General Assembly appropriated sufficient Guaranty funds to pay Heartland bond and related payments during those fiscal years. During the fiscal year ending June 30, 2003, the Authority recorded expenses for bond and related payments of \$763,028. For FY 2004 and FY 2005, the General Assembly appropriated \$2,386,515 to the State Budget Agency for transfer to the Authority for Heartland bond and related payments, negating the need to access other Authority funds in either FY 2004 or 2005.

(Continued)

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

**NOTE 8 - LOANS RECEIVABLE - ENVIRONMENTAL REMEDIATION REVOLVING
LOAN FUND (BROWNFIELDS)**

Loans receivable were comprised of the following at June 30, 2003:

City of Fort Wayne	\$ 289,549
Town of Pierceton	52,241
Town of Kewanna	34,999
City of Madison	229,780
Hendricks County	747,479
City of Rushville	68,527
City of South Bend	1,258,728
City of Mishawaka	1,135,000
City of New Albany	350,000
City of Indianapolis - BDG	175,000
City of Indianapolis - Titan	60,000
City of Tell City	800,000
City of Warsaw	175,000
City of Michigan City	<u>287,800</u>
	5,664,103
Less allowance for forgivable portion of Brownfield loans	<u>(1,050,911)</u>
	<u><u>\$ 4,613,192</u></u>

The Brownfield program includes a partially forgivable loan program with certain eligibility requirements. Eligible participants have a provision for forgiveness of up to 20% of the original loan balance if certain performance criteria are met. The Authority has recorded an allowance of \$1,050,911, which represents the current amount available for forgiveness on loans that qualified under the program.

Interest earned on these loans during the year ended June 30, 2003 was \$156,500.

(Continued)

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 9 - LOANS RECEIVABLE - BUSINESS DEVELOPMENT LOAN FUND

Loans receivable under the Business Development Loan Fund were comprised of the following at June 30, 2003:

In July 2000, the Authority advanced \$1,500,000 under a promissory note to a company within Indiana. The Indiana Department of Commerce funded \$1,000,000 of the advance through an appropriation to the Authority. A provision of the note allows \$1,000,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria are measured annually on or before December 31st. The net loan receivable at June 30, 2003 is \$323,666. The Authority has recorded an allowance of \$1,000,000, which represents the full amount available for forgiveness on the loan. The non-forgivable portion of the note is payable in quarterly installments of \$21,274, including interest at 5.00%, from October 2000 to July 2007. The note is secured by certain assets of the borrower.

\$ 1,323,665

In July 2001, the Authority advanced \$1,000,000 under a promissory note to a company within Indiana. A provision of the note allows \$500,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria are measured annually on or before December 31st. The net loan receivable at June 30, 2003 is \$410,608. The Authority has recorded an allowance of \$500,000. The non-forgivable portion of the loan is payable in quarterly installments of \$14,485, including interest at 3% from October 2001 to July 2011. The note is secured by certain assets of the borrower.

910,608
2,234,273
(1,500,000)
\$ 734,273

Less allowance for forgivable portion of loans

The program includes a partially forgivable loan program, with certain eligibility requirements. Eligible participants have a provision for forgiveness of portions of the loan if certain performance criteria are met. The Authority has recorded an allowance of \$1,500,000, which represents the current amount available for forgiveness on loans that qualified but have not met the performance criteria under the program.

Interest earned on these loans during the year ended June 30, 2003 was \$30,471.

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 10 - OTHER CONDUIT DEBT OBLIGATIONS

The Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described in Notes 6 and 7, the Authority's revenue bonds are payable solely from revenues of the Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Authority or the State of Indiana, nor are they payable in any manner from revenues raised by taxation. The Authority has no power to levy taxes. Pursuant to this authority, the Authority has issued numerous revenue bonds.

NOTE 11 - RESERVED FUND EQUITY

The Authority has reserved fund equity in five special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by the Authority's governing body:

The CAP Fund has a reserve of \$1,439,453 for childcare facility loans as reserved by appropriations for the biennial appropriation; however, effective July 1, 2003, such revenue is available for other Guaranty Fund purposes.

The Guaranty Fund has a reserve of \$958,700 for child care facility debt service reserves as reserved by appropriations for the biennial appropriation; however, effective July 1, 2003, such revenue is available for other Guaranty Fund purposes. In addition, the Authority reserved \$476,778 to pay amounts due under a Reimbursement Agreement.

The 21st Century Research and Technology Fund has a reserve of \$4,477,002 for costs of administering the program and providing grant awards to successful grant applicants.

The Environmental Remediation Revolving Loan Fund has a reserve of \$525,328 for current loan and grant commitments as reserved by the Authority.

The Petroleum Remediation Grant Fund has a reserve of \$451,000 for current grant commitments as reserved by the Authority.

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 12 - FINANCING FEES AND PREMIUMS

The Authority may assess a fee or charge a premium on loan guaranties and bond issuances. The following represent amounts recorded for the year ended June 30, 2003:

Guaranty Fund:

Guaranty premiums and fees	<u>\$ 12,525</u>
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Petroleum Remediation Grant Fund:

PRGI premiums and fees	<u>\$ 1,050</u>
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General Fund:

Bond registration fees	\$ 230,914
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Bond application fees	<u>51,000</u>
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	<u>\$ 281,914</u>
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NOTE 13 - RENT COMMITMENTS

The Authority leases office space pursuant to a non-cancelable operating lease expiring in May 2006. The future minimum rental payments required at June 30, 2003 are \$321,158. A summary of the total minimum lease payments for the lease is as follows:

2004	\$ 113,350
2005	113,350
2006	<u>94,458</u>
	<u>\$ 321,158</u>

Rental expense for the operating lease was \$113,661 for the year ended June 30, 2003. The Authority subleases space to the Indiana Transportation Finance Authority, the 21st Century Research and Technology Fund, and the Public Finance Office that resulted in rental income of \$50,969 for the year ended June 30, 2003. The Indiana 21st Century Research & Technology Fund was allocated \$20,538 of the rent expense with the general fund recording the remainder.

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 14 - AGENCY ACCOUNT - MARKET INDIANA

Market Indiana is a public-private partnership designed to support economic development in the State of Indiana. Through Market Indiana, Indiana companies can participate with the Indiana Department of Commerce in various marketing programs to promote economic development in Indiana. The Authority performs certain accounting functions for Market Indiana on behalf of the Indiana Department of Commerce. The assets, fund balance, and results of operations are not included in the financial statements of the Authority. Summarized financial information as of June 30, 2003 and for the year then ended is as follows:

Total assets	<u>\$ 223,908</u>
Fund balance	<u>\$ 223,908</u>
Total revenues	\$ 89,349
Total expenditures	<u>(195,017)</u>
Excess of revenue over expenditures	<u>\$ (105,668)</u>

NOTE 15 - SHORT TERM OBLIGATIONS

Accrued expenses are recognized for expenses incurred but not paid at June 30, 2003. The following schedule shows the changes in short term obligations during the year:

	Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2003</u>
Accounts payable and accrued expenses	<u>\$ 65,480</u>	<u>\$ 17,967,002</u>	<u>\$ (17,965,861)</u>	<u>\$ 66,621</u>

NOTE 16 - PENSION PLAN

The Authority elected to become a participant in the Public Employers' Retirement Fund (PERF) and began active membership on January 1, 1994. Authority contributes to the PERF, an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana.

INDIANA DEVELOPMENT FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 16 - PENSION PLAN (Continued)

All full-time state employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the Authority the right to participate and contribute to the plan employees vested after ten years of service. Employees who have reached fifty years of age may receive retirement benefits with fifteen years of service. An employee may receive benefits at age sixty-five with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. Authority elected to pay their employees' 3% contribution. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

All assets of the plan are held and invested by PERF. Investments are in obligations of the U.S. Government, federal agencies, corporate bonds, and equity securities.

There is no pension benefit obligation information or assets available for benefits at cost information or an analysis of funding disclosed in this report. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PERF on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employees. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plan. However, PERF performed an actuarial valuation of Authority's plan as of June 30, 2000 which is included in the Annual Report of the Indiana Public Employees' Retirement Fund for state employees and employees of the various subdivisions of the State of Indiana. Authority's contributions to PERF were in accordance with the requirements computed in the actuarial valuation performed June 30, 2000.

The following shows pension plan information relative to contributions:

<u>Year</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Employer Contributions to Covered Payroll</u>
2002	\$ 22,461	\$ 12,958	\$ 35,419	\$ 431,940	5.2%

SUPPLEMENTARY SCHEDULES

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF SPECIAL REVENUE FUND BALANCE SHEETS
June 30, 2003

	Capital Access Program Fund	Guaranty Fund	Business Development Loan Fund	Rural and Agricultural Development Fund	Environmental Remediation Revolving Loan Fund	Indiana 21st Century Research and Technology Fund	Petroleum Remediation Grant Fund	Total
Assets								
Cash and cash equivalents	\$ 175,521	\$ -	\$ -	\$ -	\$ 880,747	\$ 610,640	\$ -	\$ 1,666,908
CAP cash accounts	-	-	-	-	-	-	-	-
Investments	5,828,963	5,282,068	4,896,994	1,378,575	11,024,898	3,942,673	9,132,331	41,486,502
Accrued interest receivable	29,566	74,446	45,380	18,761	163,149	4,164	8,755	344,221
Accounts receivable	-	-	-	-	-	46,102	-	46,102
Loans receivable, net	-	909,600	734,273	-	4,613,192	-	-	6,257,065
Interfund loan receivable	-	275,505	21,274	-	-	-	-	296,779
	<u>\$ 6,034,050</u>	<u>\$ 6,541,619</u>	<u>\$ 5,697,921</u>	<u>\$ 1,397,336</u>	<u>\$16,681,986</u>	<u>\$ 4,603,579</u>	<u>\$ 9,141,086</u>	<u>\$ 50,097,577</u>
Liabilities								
Accounts payable	\$ -	\$ 8,517	\$ 504	\$ -	\$ 12,141	\$ -	-	\$ 21,162
Interfund loan payable	42,446	-	-	-	72,764	126,577	-	241,787
Allowance for guaranty claims	-	900,000	-	-	-	-	-	900,000
Total liabilities	<u>42,446</u>	<u>908,517</u>	<u>504</u>	<u>-</u>	<u>84,905</u>	<u>126,577</u>	<u>-</u>	<u>1,162,949</u>
Fund balances								
Reserved	1,439,453	1,435,478	-	-	525,328	4,477,002	451,000	8,328,261
Unreserved	<u>4,552,151</u>	<u>4,197,624</u>	<u>5,697,417</u>	<u>1,397,336</u>	<u>16,071,753</u>	<u>-</u>	<u>8,690,086</u>	<u>40,606,367</u>
Total fund equity	<u>5,991,604</u>	<u>5,633,102</u>	<u>5,697,417</u>	<u>1,397,336</u>	<u>16,597,081</u>	<u>4,477,002</u>	<u>9,141,086</u>	<u>48,934,628</u>
	<u>\$ 6,034,050</u>	<u>\$ 6,541,619</u>	<u>\$ 5,697,921</u>	<u>\$ 1,397,336</u>	<u>\$16,681,986</u>	<u>\$ 4,603,579</u>	<u>\$ 9,141,086</u>	<u>\$ 50,097,577</u>

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF SPECIAL REVENUE FUND REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
Year ended June 30, 2003

	Capital Access Program Fund	Guaranty Fund	Business Development Loan Fund	Rural and Agricultural Development Fund	Environmental Remediation Revolving Loan Fund	Indiana 21st Century Research and Technology Fund	Petroleum Remediation Grant Fund	Total
Governmental activity revenues								
State Appropriations	\$ 861,875	\$ 2,418,750	\$ 540,625	\$ -	\$ 2,500,000	\$ -	\$ 4,500,000	\$ 10,821,250
Other state funding	-	-	-	-	-	12,723,880	-	12,723,880
Investments earnings	148,417	334,370	152,745	54,808	450,923	93,854	98,049	1,333,166
Realized and unrealized gains	(28,091)	197,554	(41,459)	4,409	(25,458)	-	-	106,955
Financing fees and premiums	-	12,525	-	-	-	-	1,050	13,575
Total revenues	<u>\$ 982,201</u>	<u>\$ 2,963,199</u>	<u>\$ 651,911</u>	<u>\$ 59,217</u>	<u>\$ 2,925,465</u>	<u>\$ 12,817,734</u>	<u>\$ 4,599,099</u>	<u>\$ 24,998,826</u>
Governmental activity expenses								
Salaries and benefits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,713	-	\$ 21,713
Administrative expenses	-	23,572	504	19,973	50,685	190,977	-	285,711
Office rent	-	-	-	-	-	20,538	-	20,538
Bank and trustee fees	7,699	6,800	5,329	1,651	13,470	6,407	8,189	49,545
Allowance for forgivable loans	-	-	-	-	- 413,911	-	-	413,911
Reimbursement agreement loss	-	2,749,022	-	-	-	-	-	2,749,022
Grant awards	-	-	-	-	460,006	13,669,339	-	14,129,345
CAP claims	932,714	-	-	-	-	-	-	932,714
Total expenses	<u>940,413</u>	<u>2,779,394</u>	<u>5,833</u>	<u>21,624</u>	<u>938,072</u>	<u>13,908,974</u>	<u>8,189</u>	<u>18,602,499</u>
Excess (deficiency) of revenues over expenses	41,788	183,805	646,078	37,593	1,987,393	(1,091,240)	4,590,910	6,396,327
Other financing sources and uses								
Transfers – internal activities	<u>(139,529)</u>	<u>(857,330)</u>	<u>(12,134)</u>	<u>(18,904)</u>	<u>(473,165)</u>	<u>-</u>	<u>-</u>	<u>(1,501,062)</u>
Excess (deficiency) of revenues and sources over expenses and uses	(97,741)	(673,525)	633,944	18,689	1,514,228	(1,091,240)	4,590,910	4,895,265
Fund balances								
Beginning of year	<u>6,089,345</u>	<u>6,306,627</u>	<u>5,063,473</u>	<u>1,378,647</u>	<u>15,082,853</u>	<u>5,568,242</u>	<u>4,550,176</u>	<u>44,039,363</u>
End of year	<u>\$ 5,991,604</u>	<u>\$ 5,633,102</u>	<u>\$ 5,697,417</u>	<u>\$ 1,397,336</u>	<u>\$ 16,597,081</u>	<u>\$ 4,477,002</u>	<u>\$ 9,141,086</u>	<u>\$ 48,934,628</u>

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET
Year ended June 30, 2003

General Fund Expenses:

	Actual <u>Expenses</u>	Budgeted <u>Expenses</u>	Variance <u>(Over) Under</u>
Salaries and benefits (Note 1)	\$ 402,289	\$ 465,862	\$ 63,573
Professional services	44,409	120,000	75,591
Administrative expenses	140,215	484,171	343,956
Office rent (Note 2)	122,821	113,352	(9,469)
Bank and trustee fees	1,394	-	(1,394)
Total expenses	<u>\$ 711,128</u>	<u>\$ 1,183,385</u>	<u>\$ 472,257</u>

Note 1: Budgeted expenses for salaries and benefits included the full cost of staff that in some cases performs functions for other governmental entities for which the Authority receives appropriate reimbursement.

Note 2: Budgeted expenses for rent included the full cost of rental office space. The Authority provides space to other governmental entities for which the Authority receives reimbursement in arrears.

Indiana 21st Century Research and Technology Fund Expenses:

	Actual <u>Expenses</u>	Budgeted <u>Expenses</u>	Variance <u>(Over) Under</u>
Salaries and benefits (Note 1)	\$ 21,713	\$ 193,650	\$ 171,937
Administrative expenses (Note 1)	190,977	891,110	700,133
Office rent	20,538	21,000	462
Bank and trustee fees	6,407	-	(6,407)
Grant awards (Note 2)	13,669,339	-	N/A
Total expenses	<u>\$ 13,908,974</u>	<u>\$ 1,105,760</u>	<u>\$ 866,125</u>

Note 1: Actual expenses were under budget due to: not all budgeted staff positions were filled throughout the fiscal year, 21st Century Fund staff perform functions for other governmental entities that result in a reimbursement schedule that does not correlate with the 21st Century Fund fiscal year, and due to other deferred projects.

Note 2: The budget for the Indiana 21st Century Research and Technology Fund is only for operating expenses associated with the grant award process and does not include a budget for grant awards. Grant awards are recommended and approved periodically.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Indiana Development Finance Authority
State of Indiana

We have audited the financial statements of Indiana Development Finance Authority (Authority) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Indiana State Board of Accounts and the Indiana State Budget Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Indianapolis, Indiana
September 12, 2003